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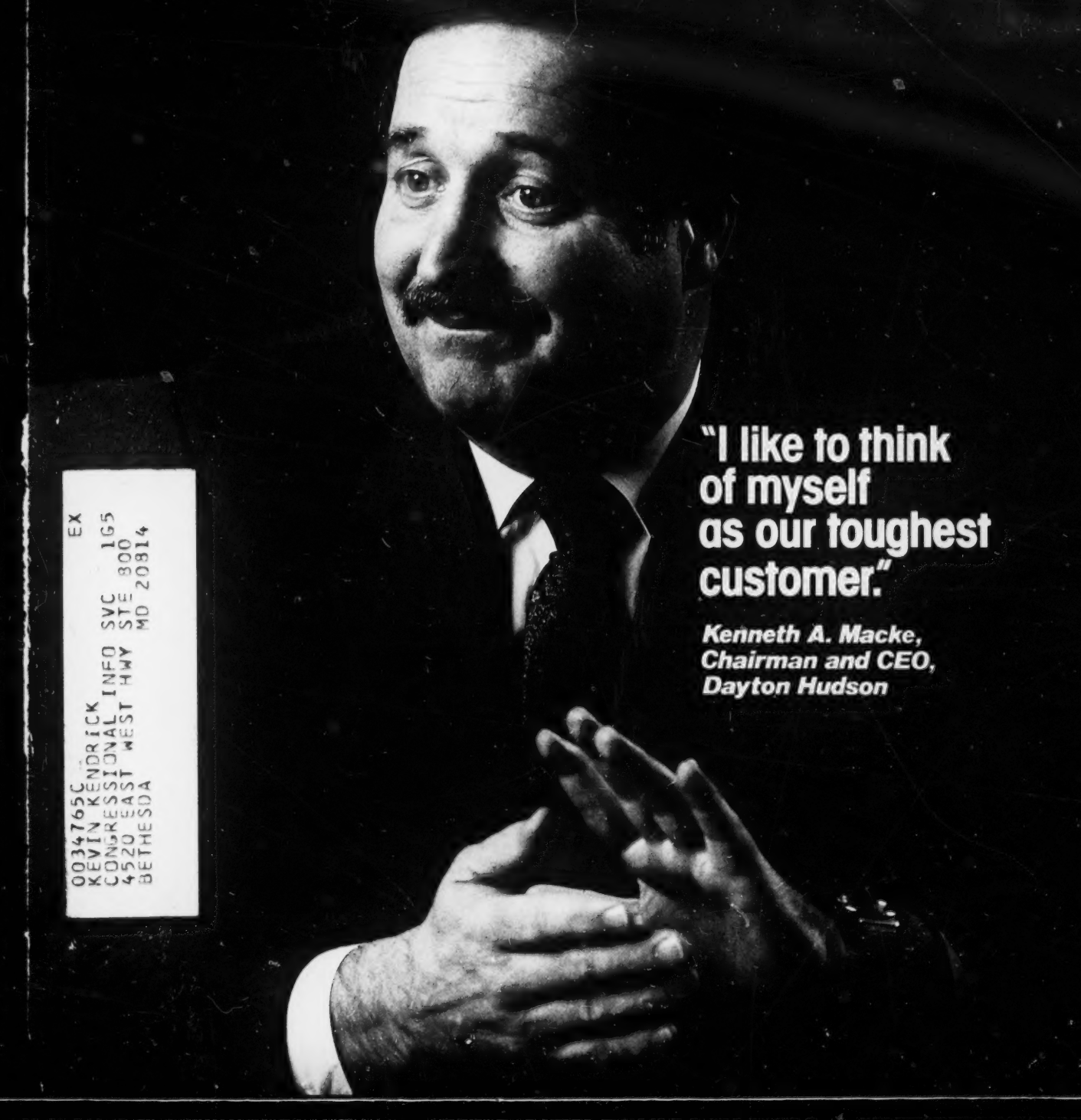
Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

January 1987



"I like to think of myself as our toughest customer."

Kenneth A. Macke, Chairman and CEO, Dayton Hudson

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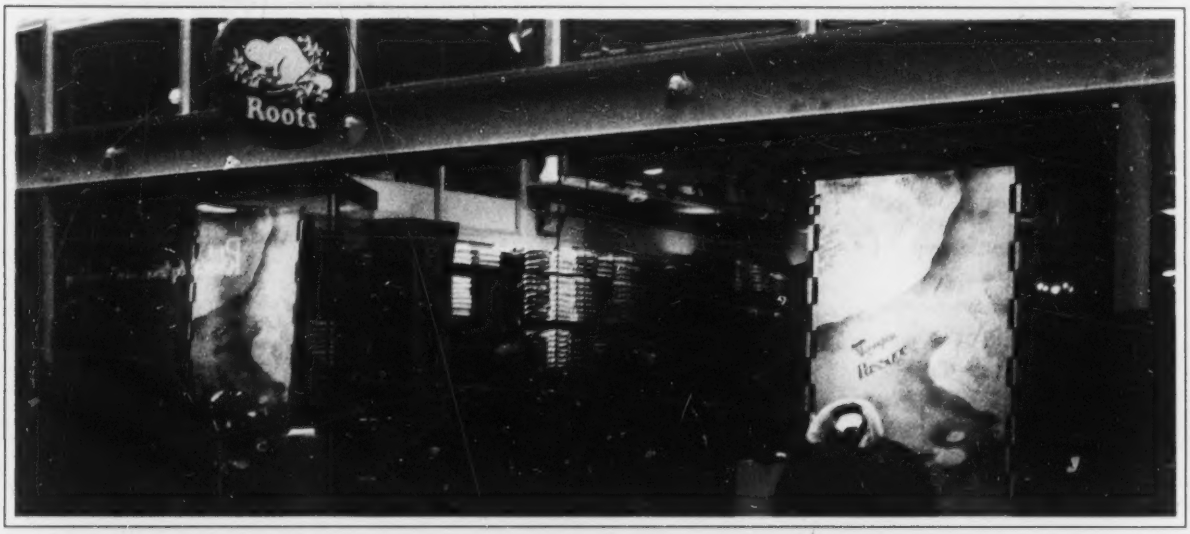

CANADIAN RETAILING PARALLELS U.S.

While Canadian retailers must deal with some unique problems created by the sheer size of their country and sharp regional differences in tastes and styles, many of the developments occurring there still accurately mirror what's already happened in various retail classifications south of the border. *17*

KEN MACKE: HIS OWN TOUGHEST CUSTOMER

Now chairman of Dayton Hudson, he has spent his entire career proving that success comes from serving the consumer best. 35

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SHOPPING CENTER AGE

DEVELOPERS BULLISH ON CONSTRUCTION OUTLOOK FOR 1987

According to *Chain Store Age Executive* research, 84% of the developers participating in this year's survey expect to increase their gross leasable area before this year is over; 80% made sizeable increases in 1986. Few tle changes are foreseen, though, in financing availability. *49*

DEVELOPERS ASSUME BULLISH STANCE

SURVEY RESULTS SHOW SIZEABLE ADDITIONS TO GLA PLANNED FOR 1987, 1988

At Equity Properties & Development, current plans for increasing the company's square footage of shopping center GLA include the construction of the Clear Lake Mall in Jacksonville, Fla. (scheduled to open in late 1988) and the addition of anchors at the Magnolia Mall, Florence, Ky., and the Adrian Mall, Adrian, Mich. They also include the expansion and renovation of the company's newly-acquired South Gate Plaza Center in Sarasota, Fla.

Equity's activities provide a vivid illustration of the outlook for the shopping center industry this year as most developers forge ahead, leaving the problems of the early 1980s behind them once and for all. They have at last ceased their yearning for the "good old days" when development opportunities were once almost too plentiful to count, and instead have adjusted to the exigencies of doing business in a changed environment.

For regional mall developers such as Equity, this means seizing those few new center opportunities that come their way while expanding and renovating existing centers as part their quest to up the value of their property assets. This also means acquiring centers whenever and wherever a suitable opportunity exists.

Meanwhile, at Leo Eisenberg, one of the nation's largest developers of small centers, plans call for the construction of 25 new projects this year. Four are scheduled to be built in Phoenix, four in Denver, seven in Kansas City, four in Pennsylvania, three in South Carolina and three in St. Louis. The average size of these centers is 165,000 sq. ft. (The company also intends to expand between five and 10 of its existing centers.)

The Leo Eisenberg scenario helps illustrate the fact more small center owners are developing their centers for long-term returns, rather than for short-term gains as had been the rage among some other developers.

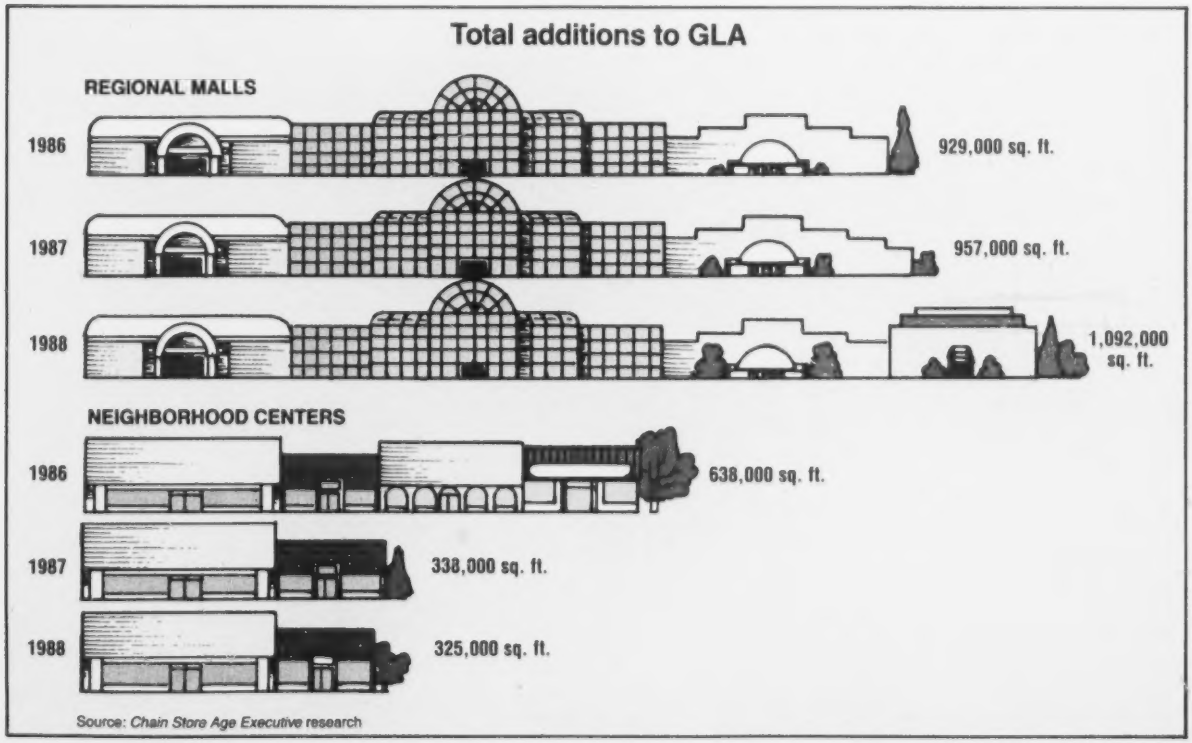
As a consequence of this change in attitude, the frenetic pace of small center development shows signs of slowing to a more manageable rate.

Such conclusions are borne out by the findings of an original research study focusing on the shopping center industry construction outlook which was conducted by *Chain Store Age Executive*.

There are strong indications that developers have finally learned to do business in a relatively stable business environment and are now looking to reap the rewards. Thus most developers are taking actions that mirror the growth strategies adopted by both Equity Properties and Leo Eisenberg: they are making significant additions to their inventories of shopping center GLA.

For example, 84% of the participants in *Chain Store Age Executive*'s study indicate that they expect to increase their total gross leasable area (GLA) before year-end; last year 80% said they upped such holdings.

Looking ahead to 1988, only 74% are at this point planning GLA increases; however, a number of these developers explain that they have not yet finalized all of that year's plans, particularly in the areas of expansions and acquisitions.



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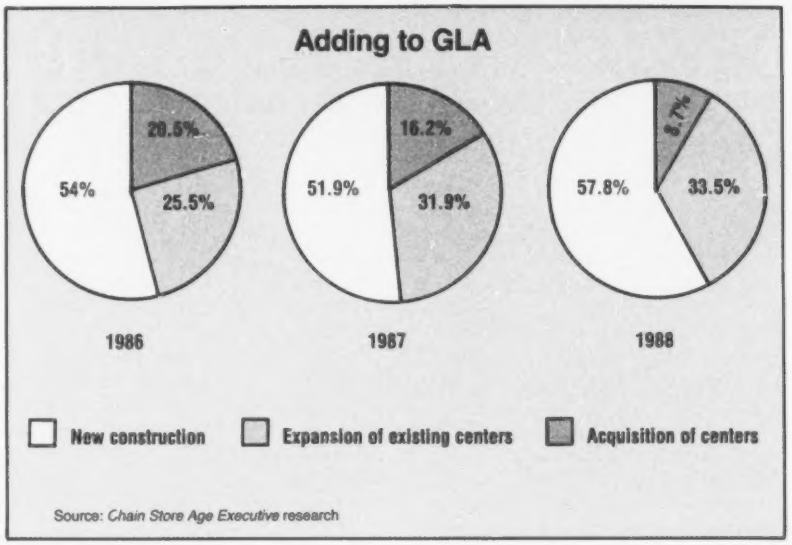

Source: *Chain Store Age Executive* research

Also, although the aggregate number of developers upping their GLA may be less in 1988, those developers who are increasing their space expect to do so by an average of 834,000 sq. ft. This can be compared with an average addition per developer this year of 745,000 sq. ft. In 1986, additions made by the survey participants averaged 850,000 sq. ft.

Perhaps even more significantly, there appear to be major changes under way in how developers are carrying out such growth plans. According to the research, acquisitions are becoming a less and less favored way to increase GLA. New center construction and the expansion of existing projects are combining to take up the slack *(see chart)*.

One probable reason for this slowing of acquisition activity is the decreasing availability of good candidates. The hectic acquisition pace of the last few years means that there are obviously now fewer good prospects available.

In addition to exploring development trends among the total survey group, the research study also pinpoints some differences (and similarities) in the growth plans of two comparative developer groups. These are comprised of participants involved primarily in regional mall development and in neighborhood/convenience/community centers. (Fifty-four percent of this year's survey respondents are involved primarily with regional malls; 30% are involved primarily in the second area.)

Even a cursory examination of these results shows a distinct downward trend in neighborhood/convenience/community center construction. Compared with 1985 when 88% of these developers report having opened new centers, only 67% expect to do so this year, the same number as in 1986. An even sharper drop off is projected for 1988 when only 53% expect to construct new centers.

Again, this number reflects some uncertainty about projecting construction schedules that far ahead; it also illustrates the fact that unlike regional malls which are often under construction for several years, these smaller centers can be built and open for business in less than 12 months.

Nonetheless, the average number of centers opened by this group of developers has also fallen dramatically from 1985's figures when they opened an average of 3.3.

They also report that last year they opened an average of two centers each, expecting to be only slightly more active this year, opening an average of 2.3. They anticipate this figure will decline to two in 1988.

In addition, there are major geographic shifts in this new construction.

Somewhat surprisingly, the Southeast appears to have fallen distinctly out of favor. While 64% of the respondents report having opened new centers in this region in 1985, only 30% opened projects there last year (30% also expect to do so this year).

Conversely, the Midwest has made a comeback of sorts, with 20% of the new neighborhood/convenience/community centers constructed by the survey group having been opened in that region last year and a further 10% expected to open in the Midwest this year.

There also appears to be an up-

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SCA

New center construction plans (by region)

	Regional malls	Neighborhood/ Convenience/ community centers
1987		
Southeast	19	30
Southwest	—	—
Pacific	—	30
Northeast	29	20
Mid-Atlantic	16	—
Midwest	37	20
1988		
Southeast	23	30
Southwest	—	30
Pacific	—	—
Northeast	15	10
Mid-Atlantic	46	20
Midwest	15	10
1989		
Southeast	36	38
Southwest	7	25
Pacific	—	—
Northeast	29	25
Mid-Atlantic	21	12
Midwest	7	—

Source: *Chain Store Age Executive* research

surge of interest in the Northeast region. Twenty percent of the small centers opened in 1986 were in that region; only 10% will open there this year. However, the percentage is projected to rise to 25% by 1988. *(See chart outlining geographic construction/expansion plans.)*

New regional malls are also projected to be more plentiful in the Northeast by 1988, when 29% of those survey participants involved primarily in regional mall development plan to open new centers in this region. (However, looking at the year ahead, only 15% of the new malls being opened by this group will be in the Northeast region.)

The biggest area of growth is the Mid-Atlantic region, where a full 46% of the regional malls being developed by this group will open their doors before year-end.

In general, new construction activity by those survey respondents involved primarily in regional mall development is maintaining a steady pace. Fifty-two percent constructed new centers in each of the past two years, the same number as now expect to construct centers in 1988.

There is, though, a slight slowing anticipated for this year, with the percentage dropping to 48%. Yet, the average number opened per developer is up this year, to 2.8, from last year's 2.2 and from 1985's 2.3. It is also ex-

pected to remain at almost the same level (2.7) in 1988.

The average size of regional malls being built is on the upswing, too. It stood at 473,000 sq. ft. in 1985; it went up to 541,000 sq. ft. last year; it is projected to rise to 677,000 sq. ft. this year. (The question was not asked concerning 1988 plans.)

There are a number of potential reasons for this increase in size, among them:

- The inclusion of food courts in more centers which can account for a considerable amount of square footage;
- Greater willingness by established chains to expand into new market areas and to take advantage of opportunities (often putting a number of their divisions into a single mall location);
- A number of strong, new retail companies appearing on the scene eager to grow quickly (and well financed by venture capitalists);
- Rapidly growing franchised operations hungry for space;
- The fact that many of these new centers are not being built in "middle markets" as was the case several years ago, but instead in actual major metropolitan markets. (The Hahn Co.'s new Bridgewater Mall, examined in this issue, is a prime example of this trend.)

New neighborhood/convenience/community centers are getting bigger as well. The average size was 161,000 sq. ft. in 1985; it rose to 232,000 sq. ft. last year; and the average for 1987 will be approximately 300,000 sq. ft.

One of the reasons for this increase in size is that anchors at these centers are bigger (for example, more supermarkets average well over 35,000 sq. ft.)—and are more plentiful. For example, today's "small" center may have as its anchor tenants not only a supermarket, but also a discount store, a consumer electronics superstore and/or a home center.

Many of these retailers started finding homes in such locations earlier in this decade when the expansion of these smaller centers was taking place at a rapid pace.

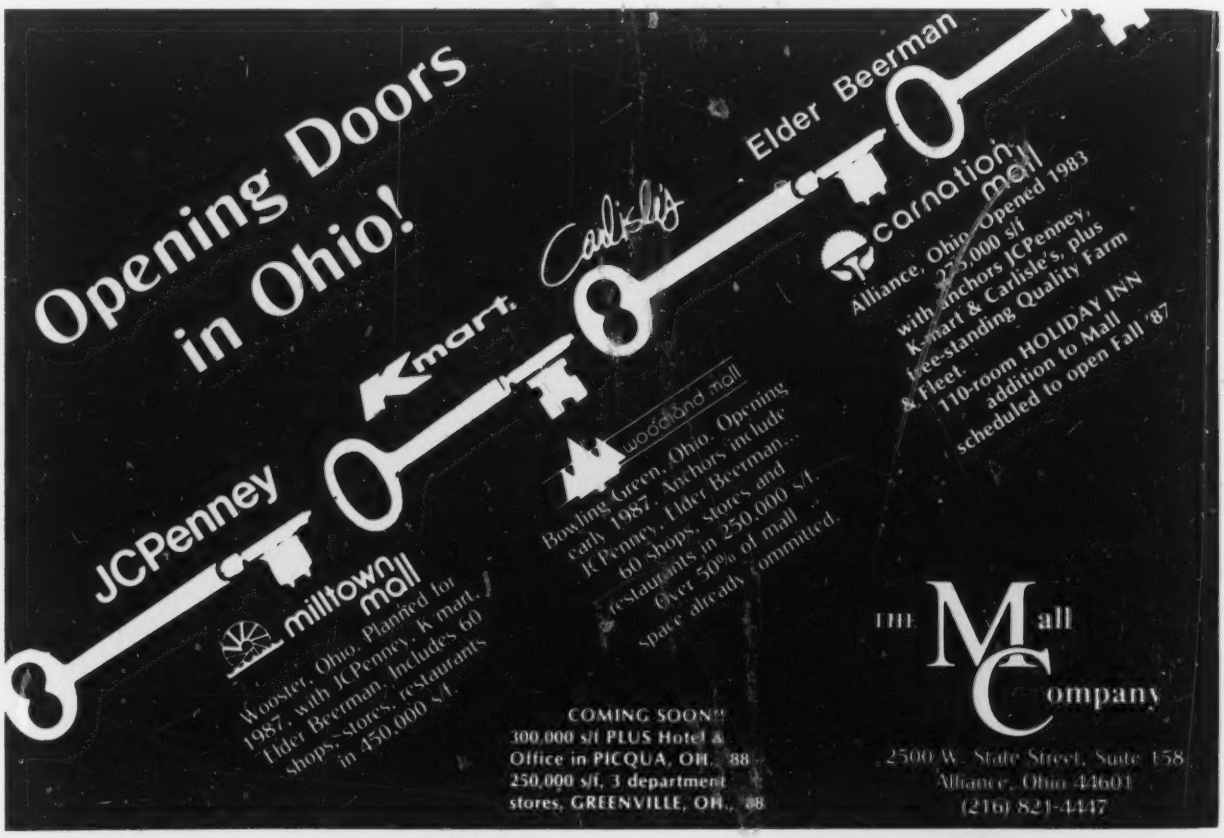
In 1985, 50% of the survey respondents involved primarily in the development of neighborhood/convenience/community centers expanded their centers. However, this number fell to 33% in 1986; this year only 27% of these respondents expect to undertake expansion projects.

Conversely, 48% of the survey participants involved primarily in regional mall development plan to expand their centers this year, up from 41% that undertook such projects in 1986 and 43% in 1985.

Looking at the total survey group, 40% expanded their centers in 1985, with each developer creating an average of 125,000 sq. ft. of new GLA. This figure rose to 44% in 1986, with the average GLA created by the expansion climbing to 162,000 sq. ft.

This year, 48% or close to half of the respondents plan to expand their centers, creating an average of 192,000 sq. ft.

Such expansions, combined with the relatively high amount of new center construction taking place, are going to provide plenty of opportunities for retailers eager to grow their businesses. ■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woodland mall
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SPENDING: BRIGHT SPOT IN LACKLUSTER ECONOMY

IN AN UNCERTAIN CLIMATE, RETAILERS KEEP AN EYE ON THE CONSUMER'S DOLLAR

As chief economist for Shearson Lehman, one of Alan Sinai's prime responsibilities is speaking before various business groups. Lately, though, the only gatherings that have been welcoming him with open arms are those containing retailers.

"When I'm asked to speak in front of retailers, I'm really happy because at least I have good news for them," acknowledges Sinai. That's because he views consumer spending as one of the few "bright spots" in an otherwise slow-moving economy.

Signs of this sluggishness include a Gross National Product which Sinai predicts will climb by only 2.7% this year, or just slightly higher than 1986's 2.6%. Looking at fixed investment by businesses, he foresees a decline to 2.1%.

As for other economic indicators, he anticipates housing starts will fall, from 1.85 million in 1986 to a projected 1.76 million.

Even consumer spending is projected to rise by only 2.7%, or a more modest rate of increase than last year's estimated 4.1%.

The only relatively good news then, is a projected 5.9% increase in retail sales, on top of 1986's estimated 4.8%, according to Sinai.

The nation's retailers are not only welcoming Sinai's outlook but some are even more bullish. For example, William Howell, chairman of New York-based J. C. Penney, the nation's second largest general merchandise retailer, says, "We anticipate that sales of general merchandise will increase about 7% in 1987, generally the same level as in 1986." He acknowledges, though, that "The inflation rate for GAF merchandise is expected to advance to 2%, lowering the real gain in GAF sales to 5%."

At Bentonville, Ark.-based Wal-Mart, Charles E. Self, vp-finance, says, "We are looking at strong sales increases in 1987 and planning an increase of about 10%. We will be adding a lot of stores next year, too."

He adds that while many retailers with stores in the economically depressed farm belt and/or Sunbelt experienced problems there last year "We enjoyed good results and we saw no weaknesses in those areas."

The experiences of Home Depot have been somewhat different, though, points out Arthur Blank, president of the Atlanta-based home center operator. "The oil and gas crisis in the Southwest has definitely hurt our sales in Houston, New Orleans and Shreveport," says Blank.

As for this coming year, he anticipates that "our own industry will be very strong in 1987. This is because interest rates are good, the do-it-yourself business is booming and housing start trends appear positive."

A similar view of 1987 is shared by Steve Lightstone, senior vp and cfo for Payless Cashways, Kansas City, who says, "We expect that sales this year will be reasonably good, like those of 1986." For Lightstone the major limit on sales growth is the fact that "Texas and Oklahoma are still affected by the oil problem and the situation won't change for at least a year."

Other types of retailers are also being impacted by what's been happening in the now depressed oil industry. For instance, while Gene Morphis, senior vp-planning for Dallas-based Zale Corp., views 1987 "as a moderate growth year, with the East and West Coasts, as well as the Southeast, continuing to be strong." The worst spot, though, is the Southwest.

"Cautious optimism" is the way Elliott Jaffe, chairman of Dress Barn, Stamford, Conn., describes his company's business outlook: "Store for store we anticipate a 5% sales gain, 30% for the company as a whole."

Plans also call for 60 stores to be added to the women's apparel chain this year.

Jaffe adds, "I wouldn't profess to guess about other

Facing an uncertain future

types of businesses, but the excitement that has been generated in fashion will induce the consumer to part with her dollar."

The forecast of James Newton, president of Dublin, Ohio-based Economic Perspectives, gives extra credence to Jaffe's outlook. Newton projects that "some of the best [sales] results will be within various apparel channels, including women's clothing stores and children's and infants' wear stores."

He also anticipates that sales growth will be below last year's levels for durable goods stores, including home appliances. In addition, there are other areas of the industry where retailers "might feel as though sales are falling if the slowdown is not properly planned for," Newton observes.

Sandra S. Schaber, an economist with Chase Econometrics, Bala Cynwyd, Pa., stresses that "Traditionally as an economic recovery becomes more and more aged, we see more consumers turning away from durable goods and toward buying smaller items."

As she admits, "I said last year that consumer spending was bound to slow, and I was wrong. But the most important unexpected factor that kept up the pace of consumer spending was the plunge in gas prices which put an estimated $20 billion in cash into consumers' hands. And they didn't save it or use it to pay off debt, but instead spent it. Many people also refinanced their homes because of lower interest rates; because of gains in stocks and bonds people also felt richer. But in talking to retailers now, I'm telling them that they can't expect any of these fortuitous events that caused 1986's consumer shopping spree to happen again this year."

That's why she is now forecasting that consumer spending will show a very modest increase of 2.5% this year, down from what she estimates was a 4% increase last year.

However, just as unexpected positive events threw last year's forecasts askew, this year it is also impossible to make any forecast with an extremely high degree of probability. There are simply too many question marks, say economists and retailers alike.

Consumer spending spree

LOWER OIL PRICES AND HOME REFINANCING SPURRED 1986 BUYING

For instance, the savings rate remains at an all-time low; if consumers were to suddenly start worrying about building these balances back up, it could obviously have a negative impact on retail sales. However, if it goes up approximately 1%, as Schaber and others forecast, "This won't have a drag effect," she explains, adding, though, that "If it went up to 6%, the historic norm, this would indicate considerable consumer retrenchment and would have a major impact on retailing. But I don't expect this to happen."

The single largest factor, though, will be the impact of the new tax law.

At first glance, the effects would appear favorable. After all, the government is estimating that approximately $11.5 billion will be put into consumers' hands as a result of the tax cut. What do consumers usually do when they get more money? They spend it.

That is what happened this past year when the sharp drop in oil prices resulted in an income windfall of about $28 billion for the American consumer, according to Stephen S. Roach, an economist with Morgan Stanley. Like Schaber, he estimates that "the oil dividend explains about half the unexpected burst of consumption the past year," when consumer spending showed a gain of approximately 5%, he says.

Roach is one of a handful of economists who expect the new tax law to have a negative impact on this year's consumer spending, having already caused consumers to go ahead with purchases they otherwise would have postponed.

However, Chase Econometrics' Schaber says, "as for the impact of tax reform, there may have been some extra buying taking place in the fourth quarter. But this was only for very expensive items, not in the mass marketplace."

Newton is even more emphatic. "The effects of tax reform have been greatly overestimated," he states. "To think that people were going around buying this and that just to take advantage of the sales tax deduction is ridiculous. Therefore, it follows that this really shouldn't negatively impact sales early next year."

Instead, "the big question is whether putting more after-tax dollars in people's hands will help consumer spending," says Schaber. "I think the answer is yes, but retailers have to be careful not to overestimate the impact for at least two major reasons. First, we expect that when you take away the tax advantage for investments, there will be a decline in plant and equipment purchasing. This weakens the economy and leads to less income gains and fewer jobs; the impact could offset the extra money gained through tax reform."

Second, she observes, "I have been looking with great interest at the results of all the polls gauging the public attitude toward tax reform. It is unsettling that a common finding of all the polls is that people are looking at the effects of the new tax law with a great deal of skepticism. The general feeling is that 'The other guy is going to benefit, but I don't expect to benefit at all. Also, I expect taxes to go right back up in 1988.' If this is really what people think, they aren't going to be running out and spending more money and so retailers aren't going to get as much positive effect as many may be expecting."

Many retailers are already adopting a cautious attitude. For instance, Zale's Morphis is forecasting that "It

Consumer markets: Looking ahead . . .

	1985	1986F	1987F	1988F
Rate of increase				
Consumption	3.5%	4.1%	2.7%	3.3%
Retail sales	6.4	4.8	5.9	5.7
Contributing factors				
Real disposable income	2.4%	3.2%	3.1%	3.9%
Consumer Price Index	3.5	1.9	3.2	4.0
Real household net worth	3.6	4.1	2.6	2.2

F: Forecasted
Source: Shearson Lehman Brothers

will take a year for people to adjust to the new tax laws." He adds, "It's quite conceivable that it will have an adverse impact on revolving credit in that people will start doing more cash shopping."

Home Depot's Blank believes, "Some of the impact of the new tax law remains to be seen, but there's no question that its effect on revolving credit will be a negative one. Since they won't be able to write off the interest on their tax returns, more and more people will be making cash purchases in the future."

However, Payless Cashway's Livingstone contends that "Interest deductions for credit card purchases may be gone, but I don't think most people make buying decisions based on whether or not they can deduct the interest." And, despite the economists' negative prognostications for home-related products, he believes, "Fortunately for us, the tax bill favors home ownership which will boost consumer spending for fixing up new and old homes alike."

Kenneth A. Macke, chairman and ceo of Dayton Hudson, Minneapolis, is another retailer who's optimistic about the law's eventual impact. "The overall tax situation will be good for us," he says. "In general, customers will have more money to spend as a result of the tax bill. They feel good about that and we think that's good for our business."

Ralph Shulansky, senior vp and cfo for Rocky Hill, Conn.-based Ames Department Stores, foresees that "Our typical customer will get helped by the new tax law as much as anyone; it will create more disposable income and thereby increase sales."

"Tax reform will actually benefit us in two ways," adds Wal-Mart's Self. "One is that consumers will have more disposable income because they will be paying less taxes and, two, we will pay less taxes and pass this on in terms of lower prices."

Shearson Lehman's Sinai says, "Retailing is more labor-intensive and less capital-intensive than many other industries, therefore most retailers have previously been paying higher tax rates than have many other types of business. Now, though, the tax rates for many of them will go down." (At Payless Cashways, for instance, Lightstone says, "We're going to realize a lower effective tax rate—41% in 1987, 34% in 1988, and even less in future years.")

Another hidden benefit for retailers, Sinai maintains, is that the new tax law will help to alleviate the impending labor crisis in retailing (*Chain Store Age Executive*, June 1986). "Workers will now have more after-tax dollars. This means that more individuals will be interested in second jobs, feeling that all of the extra money won't just go to taxes. There will be a much greater supply of workers willing to go to work in the retail trade," he says. "Because of shortages of workers, retail trade wages have been rising, but now with more employees available, this may no longer have to continue.

"The effect of the tax cut should be to put approximately $120 billion more in consumers' hands over the next five years," says Sinai. "We can expect consumers to spend a big chunk of that money. But the real key for retailers will be to control costs and to manage inventories tightly so that any increase in sales will show up to full advantage on the bottom line." ■

Retailers to gather at NRMA convention

What's ahead for the retail industry in 1987 will no doubt be one of the major topics discussed by general merchandise retailers when they gather in New York City this month to attend the 76th annual convention and national retailers business and equipment exposition sponsored by the National Retail Merchants Association (NRMA).

The theme of this convention, being held Jan. 11-14 at the New York Hilton and Sheraton Centre Hotels, is "Retailing '87: Creating Success." With this theme in mind, the scheduled workshops can be grouped under the following headings:

- Major issues with the potential to greatly impact retailing, such as "Challenges to the U.S. Economy: Dynamics of Debt, Trade and Finance," "Industry Restructuring: The Need to Boost Performance" and "Power Retailing: The New Wave."
- New research, encompassing "Vital Trends in Consumer Demographics," "The Over-50 Market: Packed with Purchasing Power" and "Re-Examining Middle Market Buying Power."
- Ways of improving marketing programs, including a look at "Sales Promotion Techniques That Work" and "Secrets of Successful Niche Marketing."
- Maximizing the stores' human resources, with sessions including advice on "Matching the Individual to Company Style" and "How the Right Environment Stimulates Sales Performance."
- How technology is being utilized in the retail environment. Topics include "How Innovative Computer Technology Speeds Up Distribution" and "Using Advanced Technology to Strengthen Management Systems."

However, in addition to a full schedule of workshops, there will also be time allotted for visiting the exhibit areas in both the New York Hilton and Sheraton Centre Hotels.